



Briefing Note: Export Development Canada – an Overview

Overview

Export Development Canada (EDC), a Crown Corporation mandated to promote Canadian trade abroad, has developed policies on the environment, disclosure, human rights and corruption that still fall far short of ensuring appropriate due diligence and public accountability.

EDC should meet or exceed international best practices, by changing its policies to ensure greater consultation, disclosure, consideration of human rights and sanctioning of corruption.

Export Development Canada – What it is and what it does

EDC promotes Canadian trade in developing and developed countries by providing companies, and in some cases countries, with direct loans, guarantees on commercial loans, equity investment in projects, and investment and political risk insurance. Ostensibly it provides companies and countries with the credit they need to export or import goods, and ensures that they get repaid for the goods they sell. In 2003, EDC provided 51.9 billion in such services.

As a Crown Corporation, EDC operates at arms length from the government, and is financially self-sustaining. That said, it is still a public institution because its initial capital base came directly from taxpayer money, it pays no taxes, and its credit rating is backed directly by the government (i.e., if a client defaults or delays repayment on a loan to EDC, the government – and ultimately the Canadian public – assumes the risks and losses). EDC reports to Parliament through the Minister for International Trade, and tables its annual report, Corporate Plan and budget before Parliament.

Why worry about the actions of a public financial institution?

Over the years, EDC has been criticized for financing socially and environmentally devastating projects. These include the Three Gorges hydroelectric dam in China that displaced close to 1.2 million people, OK Tedi Copper mine in Papua New Guinea that polluted 1,300 square kilometres of forest land and 1,200 kilometres of river bank, and PT Pulp and Paper Mill in Indonesia that pumped 70,000 m³ of waste into the Lematang river.ⁱ As a result of criticism from civil society, the media, and the Group of Eight (G8), all Export Credit Agencies including EDC were asked to develop policies for taking the environment into account – a “Common Approaches to the Environment” policy, that levels the playing field for all ECAs and companies. Consequently, EDC now reviews the environmental impacts of projects, and provides this review to the board for its final consideration. Despite these policies, however, EDC is still funding environmentally questionable projects, like the Cernavoda 2 nuclear reactor in Romania,ⁱⁱ and in key areas, EDC’s policies are lagging behind the US, the UK, Japan, and Australia.

Apart from their environmental impact, ECA-funded projects have also displaced hundreds of thousands of local and indigenous people, in many cases without appropriate or adequate compensation. They have led to the loss of livelihood of affected groups, and the destruction of sacred and spiritual sites. Companies in Colombia (Urrea dam, Cusiana pipeline), Turkey (BTC Pipeline) and Chad (Chad-Cameroon pipeline) receiving ECA-funding have employed private security forces to protect their projects from protesters – protesters who have subsequently been arrested, kidnapped or disappeared. In other cases, communities were only consulted once a project was already underway, as happened with Colombia’s Embera Katio people and the Urrà dam. Despite these impacts, EDC still only considers human rights issues within their assessment of the political risks a particular transaction poses to EDC’s investment. These risk assessments therefore insure companies and financiers against risk, rather than insuring project-affected communities against human rights impacts. Risks then get translated into premiums rather than into

standards and international legal obligations that projects must meet.

Informed consultation of affected communities is a cornerstone of good environmental assessment practice, yet EDC does not *require* companies to consult with local communities and interested parties. EDC also does not require the prior public disclosure (“*ex-ante*”) of environmental impact assessments (EIA), or project details, for projects it is considering funding like the Nam Theun Dam in Lao – even though such disclosure can help identify issues that have not been addressed, and EIAs do not necessarily include commercially sensitive information. The US General Accounting Office, for example, has investigated business concerns over commercial confidentiality and environmental information in relation its own ECA’s disclosure policy. It found that for all the EIAs it reviewed, none contained either proprietary information, or sensitive details relating to other companies involved.

Finally, ECA responses to corruption are of growing concern. The World Bank recently debarred Canadian Acres International, found guilty of corruption in the Lesotho Highlands Water Project. While EDC was not involved in the transaction, it has a special responsibility to take action on corruption[continues to fund other transactions], since it directly underwrites companies operating abroad, and often the commission payments they make while doing so. Tracking commissions paid out to agents can help identify suspect or irregular payments – red flags for potential acts of corruption. Debarring companies found guilty of corruption for a period of time, then sends a clear message to Canadian business that corruption will not be tolerated. EDC however, has said that they are satisfied with the measures that Acres has put in place since, and will neither sanction the company, nor begin monitoring agent commissions. This sets an extremely poor precedent and illustrates the crown corporation’s level of commitment to eradicating corruption.

EDC has improved its practices, but it still falls far short of what one might expect of a public financial institution in its policies around the environment, human rights, disclosure and corruption.

Policy Recommendations

To enhance its environmental practice, for projects with significant adverse environmental impacts (Category A), EDC should require companies to conduct public consultations as part of the EIA process, and should conduct their own public consultations for projects under board consideration.

For such projects, EDC should also *require* companies to disclose project details 120 days prior to board consideration, and provide social and environmental impact assessments at EDC offices in the region and on-line *at least 60* days prior.

In the area of human rights, EDC should develop a screening mechanism for assessing the human rights impacts of the projects it supports in consultation with human rights groups.

To address corruption, EDC should enter into no new financing agreements with Canadian companies found guilty of corruption for a minimum of three years, and improve its due diligence procedures particularly with regard to commission payments made by companies to agents.

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The Halifax Initiative is a Canadian coalition of development, environment, faith-based, human rights and labour non governmental organizations working for global economic democracy.

ⁱ Project details are all cited in “Reckless Lending I” (March 2000) & Reckless Lending II” (May 2001), Halifax Initiative.

ⁱⁱ See, for example, *Race to the Bottom, Take Two*, (September 2003), ECA-Watch, available on-line at www.eca-watch.org